

**SPOKANE COUNTY, WASHINGTON**  
**January 1, 1993 Through December 31, 1993**

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**Schedule Of Findings**

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1. Controls Over Cash Receipting Should Be Improved

Our review of the cash receipting procedures at the county's departments revealed that 48 percent (\$71 Million) of all county receipts are receipted at the departments. The following internal control weaknesses were noted:

- a. The county does not have established written policies and procedures for cash receipting at the decentralized locations.
- b. Public funds are not safeguarded with funds being deposited intact within 24 hours of receipt.
- c. Cash/check composition are not recorded on receipts.
- d. Departments are using redi-form receipts. The use of "redi-form" receipts increases the risk that errors and irregularities could occur and not be detected in a timely manner. This is because the assignment of the numerical sequence to these receipt forms is not under the division's control. Without numeric control over receipts, there can be no assurance that all receipts are recorded and deposited.
- e. Spokane County checking accounts established at the department level do not always specify Spokane County's name.
- f. Bank accounts are located at various banks. The county treasurer is unable to identify all bank accounts owned by the county at the department level.
- g. The county could not provide a comprehensive list of collection sites and bank accounts.

RCW 36.29.020 states in part:

The county treasurer shall keep all moneys belonging to the state, or to any county, in his or her own possession until disbursed according to law.

RCW 36.48.010 states:

Each county treasurer shall annually at the end of each fiscal year or at such other times as may be deemed necessary, designate one or more financial institutions in the state which are qualified public depositories as set forth by the public deposit protection commission as depository or depositories for all public funds held and required to be kept by such

treasurer.

RCW 43.09.240 states:

Every public officer and employee, whose duty it is to collect or receive payments due or for the use of the public shall deposit such moneys collected or received by him or her with the treasurer of the taxing district once every twenty-four consecutive hours.

The above weaknesses increase the risk of theft.

These conditions have occurred because the county does not have written procedures from which to establish and maintain proper control over county cash receipting.

We recommend the following:

- a. The county should establish written policies and procedures for cash receipting at the decentralized locations.
- b. All public funds should be deposited intact within 24 hours of receipt.
- c. Cash and check composition should be recorded on all receipts to ensure that all receipts are recorded and deposited.
- d. Blank redi-form receipts should be replaced with prenumbered receipts controlled by the treasurer.
- e. All Spokane County checking accounts should be established through the county treasurer. These accounts should be identified as "Spokane County".
- f. Accounts should only be established at financial institutions designated by the county treasurer. In addition, a list should be prepared of all cash collection sites.

2. The Utilities Department Should Establish Collection Procedures For The Aquifer Protection Area Delinquent Accounts Receivables And Collect Past Due Amounts

As of December 31, 1993, the Aquifer Protection Area had an accounts receivable balance of \$1,198,906 of which \$619,167 was delinquent (past due for 18 months or more).

RCW 36.36.045 states in part:

. . . The County shall have a lien for any delinquent fees imposed for the withdrawal of subterranean water or on-site sewage disposal, which shall attach to the property for which the fees were imposed, if the following conditions are met:

1. At least eighteen months have passed since the first billing for a delinquent fee installment; and
2. At least three billing notices and a letter have been mailed to the property owner, within the period specified . . . .

RCW 36.94.150 states in part:

All counties operating a system of sewerage and/or water shall have a lien for delinquent connection charges and charges for the availability of sewerage and/or water service . . . .

Because the county has not made efforts to collect the revenues due in a timely manner, \$1,198,906 was uncollected as of December 31, 1993.

The number of uncollected accounts has transpired because the county does not have an adequate collection procedure for collecting past due accounts.

We recommend that the county establish adequate, timely collection procedures for the collection of the Aquifer Protection Area accounts.

3. Separation Of Duties Between Payroll And Human Resources Should Be Improved

Inappropriate separation of duties exists between payroll and human resources. Payroll establishes new employee records, makes semi-monthly payroll transactions, and makes any changes to the employee records including removing the employee from the system. Human resources is not properly authorizing users for access privileges, and payroll and human resources responsibilities are not adequately documented.

The county's payroll department is part of the county auditor's financial services department. It has full capability to add, delete and change employee information, perform payroll processing functions, and distribute the payroll checks. The county's human resources department is organizationally responsible to the board of county commissioners. It does not complete an independent review of payroll activity.

Payroll and human resources responsibilities are not adequately documented. The county does not have written policies or procedures in the following areas:

- a. Preparation of data (timekeeping, data entry, personnel action forms).
- b. Securing and controlling negotiable source documents.
- c. Identification, correction, and resubmission of rejected data.
- d. Balancing and reconciliation of output.

The AICPA's *Professional Standards*, Volume A, Section 320.37 states:

Incompatible functions for accounting control purposes are those that place any person in a position to both perpetrate and conceal errors or irregularities in the normal course of their duties.

The lack of written policies and procedures detracts from accountability. Incomplete documentation inhibits the complete understanding of the system's functions, making employee training as well as system modification more difficult.

We note that the county has activated a position authorization feature of its payroll/human resources application. This serves as an alternative control that limits the extent of errors or irregularities that may occur. However, it does not prevent errors or irregularities in certain situations, e.g., part-time employees and unfilled authorized positions.

The combined effect of inappropriate separation of duties and inadequate written policies and procedures increases the risk that errors or irregularities could occur during the normal course of business and not be detected in a timely manner.

The county purchased the Government Human Resources System (GHRIS) because the vendor was no longer going to support the old payroll system. There was no feasibility study and planning. The county bought GHRIS and put it on line. There was no attempt to rethink how the payroll and human resources departments should perform the payroll function and senior management gave little priority to writing policies and procedures.

We recommend the county take the following actions:

- a. Establish appropriate separation of duties between the payroll and human resources departments as stated below:

(1) Ensure that the payroll department acts independently of the financial accounting function, i.e., the payroll department should be limited to processing payroll.

(2) Human resources should perform the function of adding, deleting, and completing employee changes to the employee master file. If this is not possible, then the Accepted Transaction Listing should be verified to source documents by an independent individual, preferably someone in the human resources department.

b. The county payroll and human resources departments should develop written policies and procedures for maintaining and reporting payroll and personnel transactions in the following areas:

(1) The preparation of data (timekeeping, data entry, personnel action forms).

(2) Securing and controlling negotiable source documents.

(3) Identification, correction, and resubmission of rejected data.

(4) Balancing and reconciliation of output.

4. The County Should Follow Its Whistleblower Policy

On January 31, 1994, a whistle blower complaint was filed against Spokane County. The matter was investigated and a report containing two recommendations was issued on March 28, 1994, which would adequately deal with the complaint. As of the date of this audit report, the two recommendations have not been responded to.

County Resolution No. 921771 states in part:

After an investigation has been completed, the employee reporting the improper governmental action shall be advised of a summary of the results of the investigation and any personnel action(s) which are a matter of public record, as a result of being included within a disclosable public record.

By not properly responding to these recommendations, the county has violated the resolution stated above. The complaint is still unresolved and the violation works against the intent of the Whistleblower Act, RCW 42.41.030, which is to encourage disclosure of improper governmental actions.

The nonresponse to these recommendations is apparently due to the decentralized nature of the government of Spokane County, whereby no one seems to have the responsibility to take appropriate action in order to resolve this matter.

We recommend that the county follow its Whistleblower policy for all complaints.

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**Schedule Of Federal Findings**

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1. Community Development Block Grant Expenditures Should Be Supported By Time Distribution Records

The county charged the Community Development Block Grant \$9,488 in salaries and benefits for two employees who were charged to more than one program. Time distribution records were not available to support charges made to the Community Development Block Grant.

OMB Circular A-87, Attachment B, paragraph B(10) states in part:

. . . Payroll must be supported by time and attendance or equivalent records for individual employees. Salaries and wages of employees chargeable to more than one cost objective will be supported by appropriate time distribution records. The method used should produce an equitable distribution of time and effort . . . .

Because the county lacks appropriate time distribution records for these employees, we question the charges of \$9,488.

The county employees involved were not aware of the requirement to prepare appropriate time distribution records to support the charges to multiple programs.

We recommend that county employees prepare appropriate time distribution records to support charges to all federal financial programs.

2. Controls Over Accuracy Of Information Reported For Reimbursement Requests Should Be Improved

Spokane County received reimbursements from the Environmental Protection Agency for \$7,341 which were not supported by the accounting records or documents.

U.S. Office of Management and Budget (OMB) Circular A-87 states in part:

. . . all costs claimed on federal grant projects must be adequately supported by vendor invoices or other appropriate documentation . . .

The "Common Rule" requires reports that contain information that is traceable to accounting records and documents.

We question the excessive funding of \$7,341.

Lack of adequate review procedures over the reimbursement requests resulted in these accumulated errors.

We recommend that the county establish appropriate review procedures over the reimbursement reports.



3. Controls Over Federal Grant Receipts Should Be Strengthened

During our review of the control structure over federal grant receipts of the Spokane County Public Works Department and the Spokane County Community Services Department, we noted the following internal control weaknesses:

- Grant accountants maintain the accounting records, prepare the reimbursement requests, receive reimbursements, and prepare deposits.
- Redi-form receipts or no receipt at all is utilized. The use of "redi-form" receipts increases the risk that errors and irregularities could occur and not be detected in a timely manner. This is because the assignment of the numerical sequence to these receipt forms is not under the division's control. Without numeric control over receipts, there can be no assurance that all receipts are recorded and deposited.

OMB Circular A-128 requires:

. . . the organization (have) internal control systems to provide reasonable assurance that it is managing Federal assistance programs in compliance with applicable laws and regulations.

SAS 55 states in part:

(Proper) segregation of duties reduce the opportunities to allow any person to be in a position to both perpetrate and conceal errors or irregularities in the normal course of his duties ) assigning different people the responsibilities of authorizing transactions, recording transactions, and maintaining custody of assets.

These weaknesses increase the risk of theft.

These weaknesses exist because departments responsible for receipting money are not under the control of the county treasurer.

We recommend the county strengthen controls over receipts of federal grant funding. Prenumbered receipts should be used where no receipting exists or wherever redi-form receipts are currently being used.

4. The County Should Charge Indirect Costs According To The A-87 Cost Plan

Charges were made through indirect cost allocations to the Community Development Block Grant in 1992 and 1993 that contained inappropriate costs such as charges for county commissioners (Governor's expenses) and interest and other financing costs.

OMB Circular A-87, Attachment A, paragraph F.(1) states in part:

To facilitate equitable distribution of indirect expenses to the cost objectives served, it may be necessary to establish a number of pools of indirect cost within a grantee department or in other agencies providing services to the grantee department. Indirect cost pools should be distributed to benefiting cost objectives on the bases which will produce an equitable result in consideration of the relative benefits derived . . . .

We question the reimbursements for a total of \$7,055 for the years 1992 and 1993 for costs not associated with the grant.

The inappropriate charges were made because the county's cost allocation plans for 1992 and 1993 allocated costs on the full cost method rather than an acceptable method.

We recommend that the county reimburse the overcharges to the funding agency and charge indirect costs in accordance with the federal guidelines in the future.

5. The County Should Support Expenditures By Time Distribution Records

In 1992, the county charged the Aquifer Wellhead Protection Grant \$30,000 in payroll costs for an employee who was chargeable to more than one cost objective. The county could not provide records to support time distribution charges.

OMB Circular A-87, Section 10b states in part that:

. . . Payrolls must be supported by time and attendance records for individual employees. Salaries and wages of employees chargeable to more than one grant or other cost objective will be supported by appropriate time distribution records. The method used should produce an equitable distribution of time and effort . . . .

Because the county still has not provided appropriate time distribution records, we continue to question \$30,000 in grant costs.

The employee did not provide appropriate time distribution records to support the charges.

We recommend that the county reimburse the grantor agency for the questioned costs.